■ A SURPRISING FORTUNE 500 CEO POLL • BEST CHOICES ■

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NOVEMBER 23, 1987

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FORTUNE

HOW TO PREVENT A NEW DEPRESSION

If Government does a few things right—and avoids the big mistakes—the Crash could prove good for the economy. If . . .

The man on the spot: Treasury Secretary James Baker

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NOVEMBER 23, 1987 VOL. 116, NO. 12

FORTUNE

"Appearance is important. People want to see the President with the leaders of the community in a crisis."

PAGE 50

"If you limit program trading, you will simply hurt investors."

PAGE 76

"Nag the hell out of your overdue accounts."

PAGE 90

"Spoor's appointment may be temporary, but the parquet floor they're laying in his new office looks awfully permanent."

PAGE 109

"There are certain aspects of my personal life I would like to rewrite."

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"A lot of this is the fruits of the sexual revolution, the drug revolution, the freedom to be yourself."

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Cover: Secretary of the Treasury James A. Baker was photographed by Andy Freeberg.

THE EDITOR'S DESK

JOHN ABBOTT

In New York: Stock market probers Myron Magnet, Alex Taylor, Vivian Brownstein, John Curran; back row: Jaclyn Fierman, Colin Leinster, Robert Norton, Carol Loomis, Anthony Ramirez

THE extraordinary talents of my colleagues at FORTUNE account for what is, by any measure, our extraordinary Special Report on the stock market that begins on page 46. The mission we set for ourselves was clear: to impose some order on events that were themselves anything but orderly. Most challenging, we had to report on the future. It's now a commonplace that the stock market and corporate and political America will be quite different. But *how* will things be different? And how will the changes affect each of us individually—as investors, managers, citizens?

This kind of analytical, forward-looking reporting is FORTUNE's charter. For our report, we asked many of our top writers to put their pride in individual bylines aside and to act as reporters. (That, be the truth known, is what all journalists, including editors, really are at heart.) Four of our stories were written by the four writers seated in the front row of the picture above, with reports from the five writers standing behind them. They also got extensive files from Rik Kirkland in London, Louis Kraar and Fred Katayama in the Far East, Chicago bureau chief Ford Worthy, New York–based economist Sylvia Nasar, and many staff reporters. From Washington, writer Ann Reilly Dowd produced our story on the difficult policy choices facing the President and Congress, and bureau chief Lee Smith wrote the profile of the man in the middle (and on our cover), Treasury Secretary James Baker. As the writers were at work, so were art director Margery Peters, who oversaw the design of the section, and Michele McNally, who directed photographic coverage.

Nobody really expected the market to crash as violently as it did—and certainly not at that precise time. But readers of FORTUNE should have been less surprised than many others. Three months ago, just as the market peaked, our chief stock market writer, John Curran, advised investors to start taking out their profits. He repeated his worries in recent issues, warning that stock prices had surged too high. In this issue Curran scours the Wall Street basement and concludes: "There are some bargains."

STEVE KAGAN

In Chicago: Ford Worthy

The roiling stock market and its long-range implications aren't all you get in this issue. For example, who would have expected to find Werner Erhard of est and others on society's fringes striving to join corporate America? Writer Jeremy Main, that's who. His account of these new management trainers begins on page 95. Meanwhile, the FORTUNE 500 poll (page 90) quizzes chief executives about both the economy and the Administration's Persian Gulf policies. The CEOs, says writer Anthony Ramirez, are "refreshingly trenchant and optimistic."

Ramirez was one of many staffers who did double duty for this issue. Another was Myron Magnet, whose report on America's homeless begins on page 170. He and reporter Bill Sheeline crisscrossed the country talking to the homeless and to those who try to care for them. Says Sheeline, who studied New York's homeless while a student at Columbia Journalism School: "The problem is gaining on the solutions." But some communities do have programs that seem to work—they help these unfortunates help themselves. More such programs are needed, says Magnet. "Compassion alone is not enough."

KRISTINE LARSEN

Sylvia Nasar

DIRCK HALSTEAD

In D.C.: Ann Dowd and Lee Smith

JOHN ABBOTT

Michele McNally, Margery Peters

PETER MARLOW—MAGNUM

In London: Rik Kirkland

Marshall Loeb

MANAGING EDITOR

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THE ECONOMY: DOWN, NOT OUT

Stripped of bull-market wealth, consumers will cut back. But they won't provoke a recession—and FORTUNE sees some long-term benefits. ■ *by Vivian Brownstein*

OKAY, so the President did sound rather like Herbert Hoover on the day after. But let's face it, this time the economy *was* basically sound, and that will stand it in good stead now. Barring further catastrophic stock market declines, growth will slow but will not stop. Like many other economists, those on FORTUNE's staff actually see some good coming from the nightmare: Americans will spend less and save more, fundamentally strengthening the economy in the long run.

Make no mistake: The months ahead will be quite different and more perilous. FORTUNE has been consistently less optimistic than most forecasters, including Federal Reserve Chairman Alan Greenspan (FORTUNE, October 26). Before the crash, we expected real gross national product to advance 2.5% next year. Now we are looking for 1.8%.

That means $35 billion less in goods and services produced and close to a million fewer jobs created. It also means changes in the political landscape. The unemployment rate, which had dropped to 5.9% and was expected to stay there, is likely to increase to 6.5%. With no chance to spend on make-work programs, there will not be much the Administration can do about it. The year-to-year change also contains a couple of quarters with growth at a rate of less than 1%, dangerous territory where the economy could easily be tipped into recession.

The biggest damper on activity will come from slower consumer spending. The bull market made shareholders feel wealthier, and so helped underwrite an extraordinary spending splurge. Americans devoted all but 2% or 3% of current income to buying goods and services, and borrowed merrily to boot. They have spent $100 billion a year more than if they had saved at the long-term norm of 6% to 7%.

Our new forecast assumes the savings rate will bounce back to 4%. Consumers have been shaken enough by recent events to begin saving more than they have recently, though not as much as they used to. Polls of 1,000 people taken during the week after Black Monday by Sindlinger & Co., a consumer research firm, indicate that the 30% of householders who are stock owners were stunned; who knows

ROBERT HOWER—QUADRANT

A NEW VIEW OF 1988

	OLD FORECAST	AFTER THE CRASH
GNP growth	2.5%	1.8%
Unemployment, 4th qtr.	6.0%	6.5%
Inflation, 4th qtr. (GNP deflator)	5.0%	4.5%
Operating profit growth	14.0%	8.0%
Consumer spending	2.7%	1.7%
Savings rate	3.0%	4.0%

Scaling Back

With growth slowing and jobs harder to come by, consumers, such as this shopper at Schottenstein's discount store in Columbus, Ohio, will look for ways to save more and spend less. Brisk business in basics will help keep profits growing decently next year.

when they will recover? At the same time, says Sindlinger, the confidence of people who are not stock owners actually *improved*. Many have been getting better jobs lately, and at least for the moment expect that their fortunes will keep rising.

One caveat is that confidence may sink in the months ahead as people brood over the crash. Laurence H. Meyer, head of the St. Louis economic consulting firm that bears his name, is forecasting that consumers will lift their savings rate close to 5% next year and increase spending by less than 1%.

Despite the risks, this longest of peacetime expansions has been uncommonly resilient, and it still looks like a survivor.

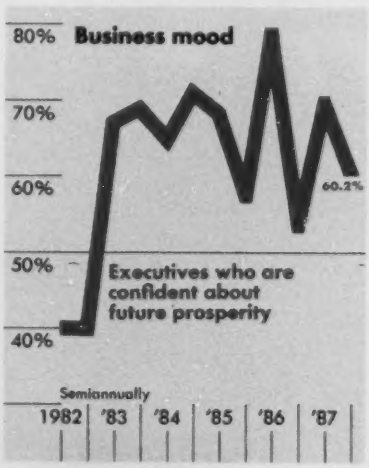
Assuming the 4% savings rate, FORTUNE has cut its forecast of 1988 consumer spending by a percentage point. We now look for an advance of 1.7%. The slowdown will help the improvement in foreign trade that is already under way. The volume of imports should shrink 4% in the coming year, while the volume of exports will rise 3%. Though climbing imports prices will keep the dollar balance from changing much, the gains in real net exports will ameliorate the damage to American businesses. After-tax operating profits, which had been expected to advance by 14%, should still increase by a relatively handsome 8%.

Shortly before the crash, FORTUNE found in its semiannual survey of the business mood that 60% of the executives responding—200 chief financial officers in large and small businesses—expected the economy to continue prospering. That was not down much from the 70% of last spring. More to the point, we resurveyed a large part of the fall sample a few days after Black Monday and found no change in attitudes. (Chief executives of FORTUNE 500 companies remain steadfast, too; see page 90.) Still, it seems reasonable to assume that the optimism will erode at least a bit, and that capital spending will be somewhat less robust.

Business will cut outlays for inventory, contributing further to the slow growth. Our quarterly survey indicates that heavy-goods producers, especially, are carrying oversize stockpiles. For all companies the excesses average around 2%. But managers will not cut drastically; they apparently will let the inventory-to-sales ratio decline slowly.

One widely celebrated benefit of the crash is the possibility that Congress and the Administration will truly pare the federal budget deficit. FORTUNE is assuming a compromise that goes beyond Gramm-Rudman-Hollings—Grambo, as some people call it—though not so far beyond that it plunges the economy into recession. That means cuts of $25 billion to $30 billion from the so-called base line, which shows where the deficit is headed if current tax and spending policies remain unchanged.

Strictly on the numbers, though, the budget cutting may prove disappointing. Before the crash, the Congressional Budget Office was projecting that the fiscal 1988 base-line deficit would rise $25 billion. Washington may now pick up a bit of change from the capital gains taxes paid by the many people who unloaded stock they had been holding a long time. But when the effects of slower growth are factored in, other revenues will be less than expected, and some expenditures will be higher—unemployment compensation, for example. So the base-line deficit might increase by almost as much as the proposed reduction, leaving the deficit basically unchanged from fiscal 1987's $148 billion.



Still confident
The future looks promising to executives responding to FORTUNE's semiannual survey.

Will that apparent lack of progress destroy the confidence the cutting was supposed to inspire? Not necessarily, particularly if Congress and the White House plan another couple of years of cuts. Perhaps most important is that the results be achieved by leadership, not default.

ECONOMISTS are not sure if the crash makes the dollar more or less vulnerable to downswings. John Hagens, the chief of domestic forecasting at the WEFA Group, which studies such matters, sees both sides. He expects that lower U.S. interest rates will make dollar-denominated investments less attractive. But because growth will be slower here than abroad, the U.S. current account should improve by some $8 billion, which will tend to keep the dollar up. FORTUNE expects the dollar to drift down another 5% to 10% over the next year against such currencies as the yen, the D-mark, and maybe the Taiwanese dollar, reflecting the continuing high level of the trade deficit. Without such a decline, the trade deficit will not shrink as much as we project.

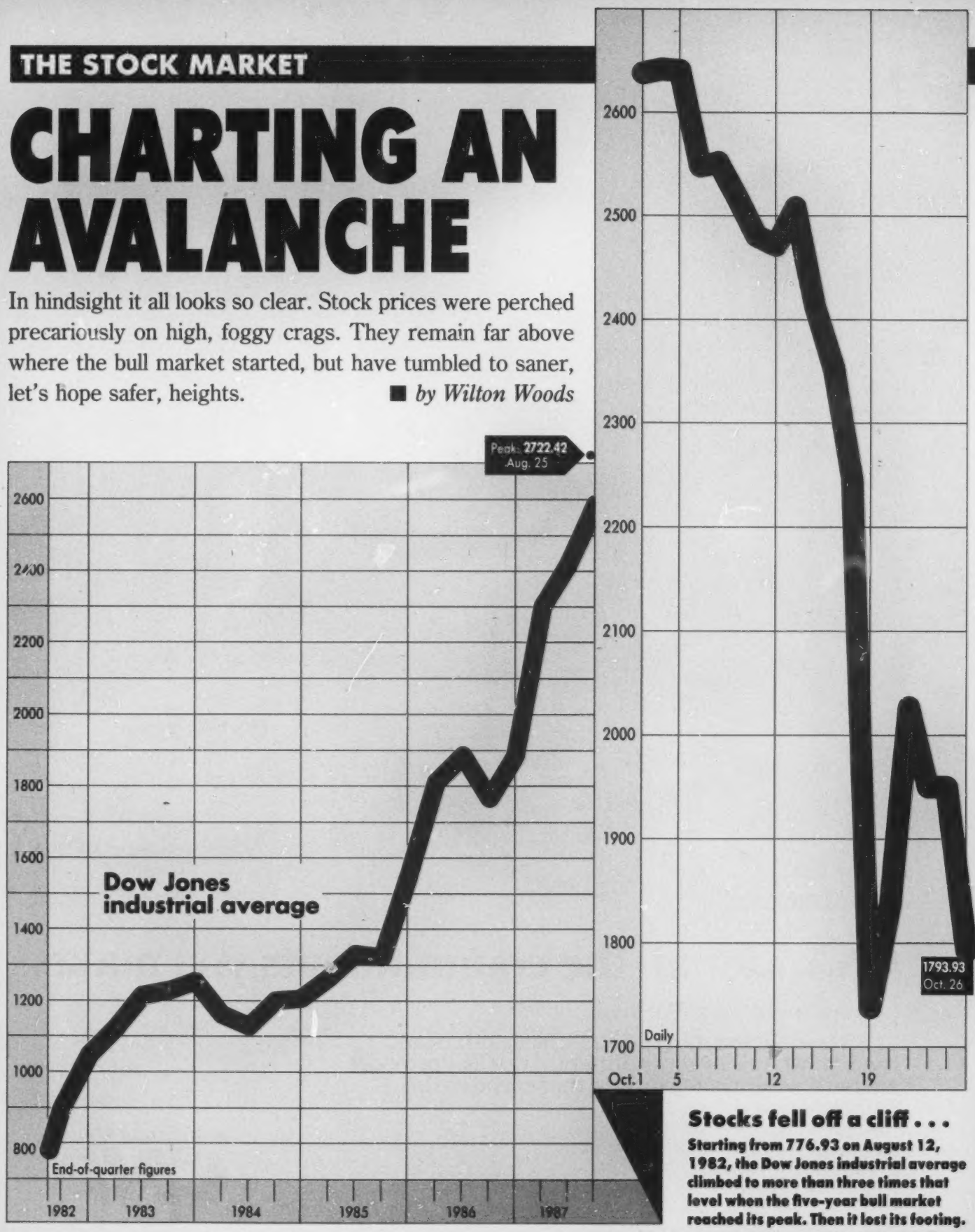
The outlook for inflation is somewhat better than it was before the crash. FORTUNE expects the GNP deflator, the broadest measure of price changes, to increase 4.5% next year; our old forecast was 5%. Consumer prices will increase a percentage point more than the deflator. Higher unemployment could lessen some of the pressure on wages next year. And to the extent that labor costs are higher, business will have a harder time getting customers to help pay for them.

In a slow-growth economy, it does not take much to provoke recession. A plunge in the dollar, for example, could heighten inflation worries, driving interest rates up sharply and lowering spending for housing or capital goods. Even without dramatic events, Americans could turn gloomier. But this longest of peacetime expansions has been uncommonly resilient, and it still looks like a survivor. ■

THE STOCK MARKET

CHARTING AN AVALANCHE

In hindsight it all looks so clear. Stock prices were perched precariously on high, foggy crags. They remain far above where the bull market started, but have tumbled to saner, let's hope safer, heights. ■ *by Wilton Woods*

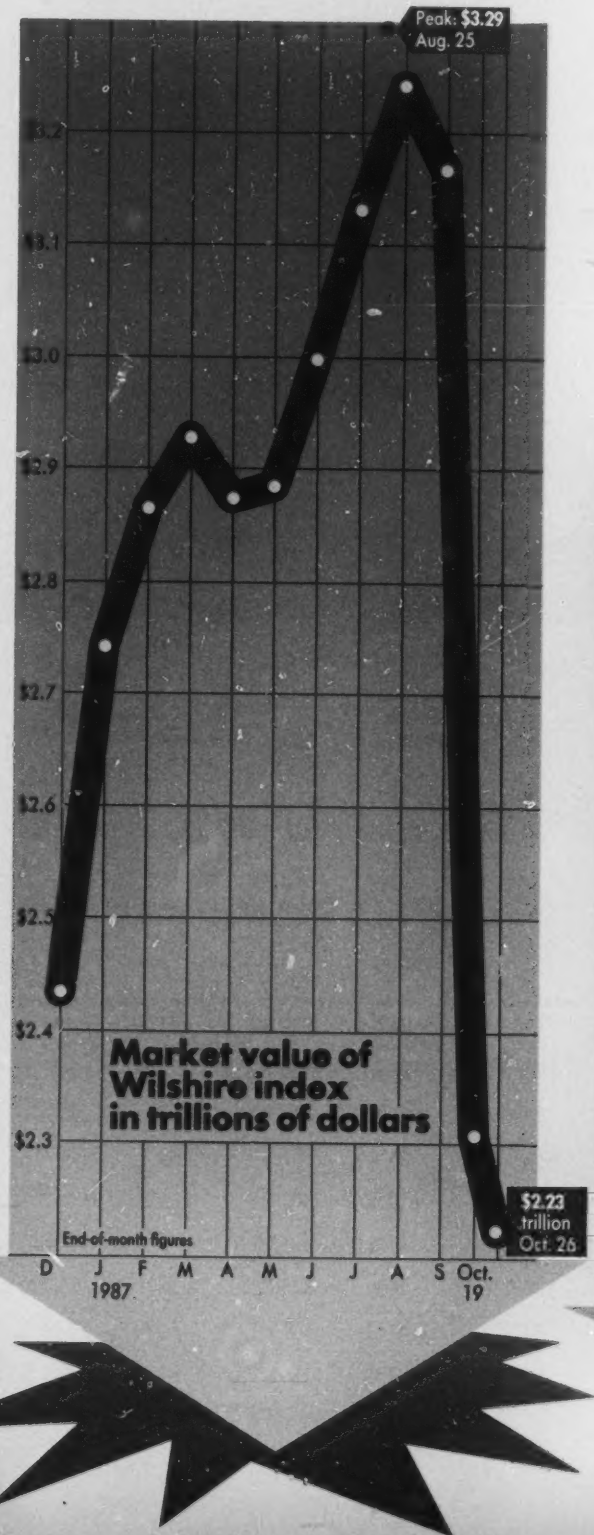


Stocks fell off a cliff . . .

Starting from 776.93 on August 12, 1982, the Dow Jones industrial average climbed to more than three times that level when the five-year bull market reached its peak. Then it lost its footing.

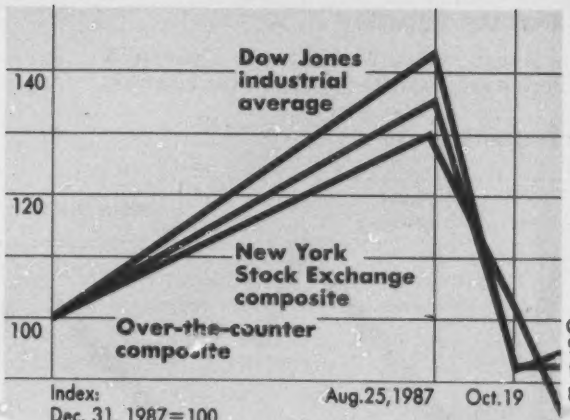
. . . and cost investors $1 trillion

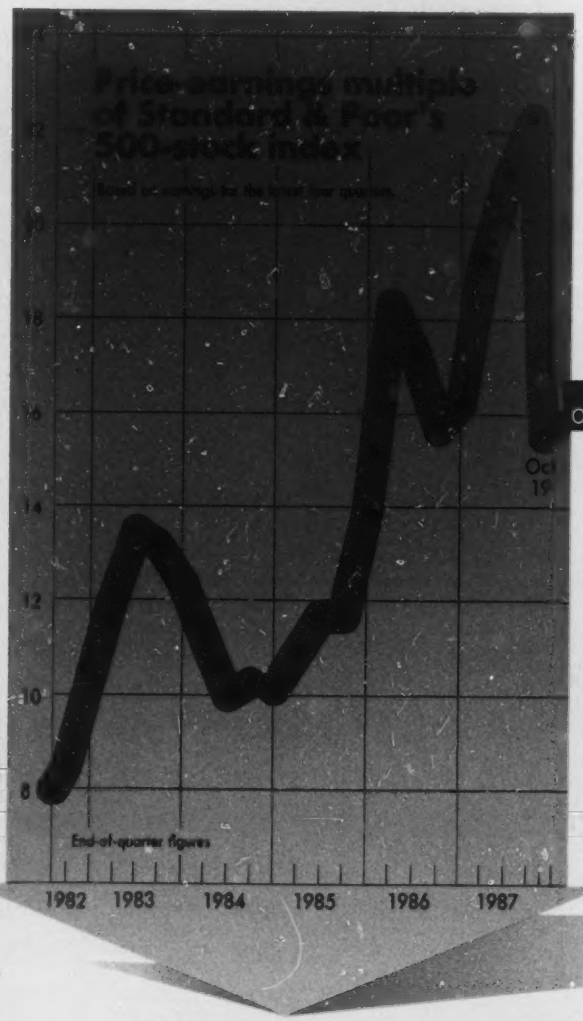
In a mere eight weeks after the market's August 25 high, the nearly 6,000 U.S. stocks represented by the Wilshire index lost one-third of their value.



Big stocks suffered least . . .

Blue chips led this year's charge up the hill and were hurt less than stocks in the broader indexes.





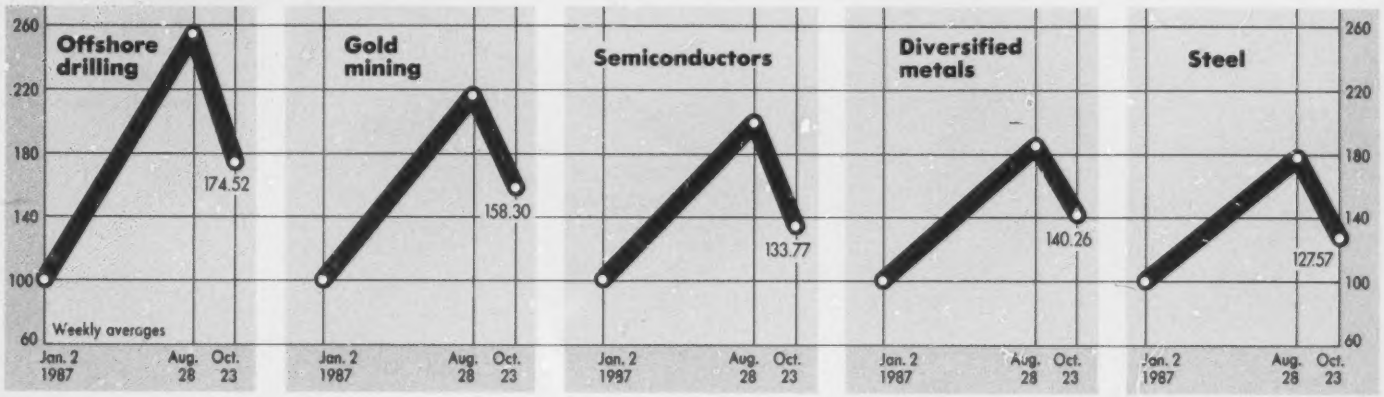
. . . and P/Es returned to reason

Last August stocks on the S&P 500 sold for 23 times their earnings per share, the highest level in 26 years. Then the P/E toppled.

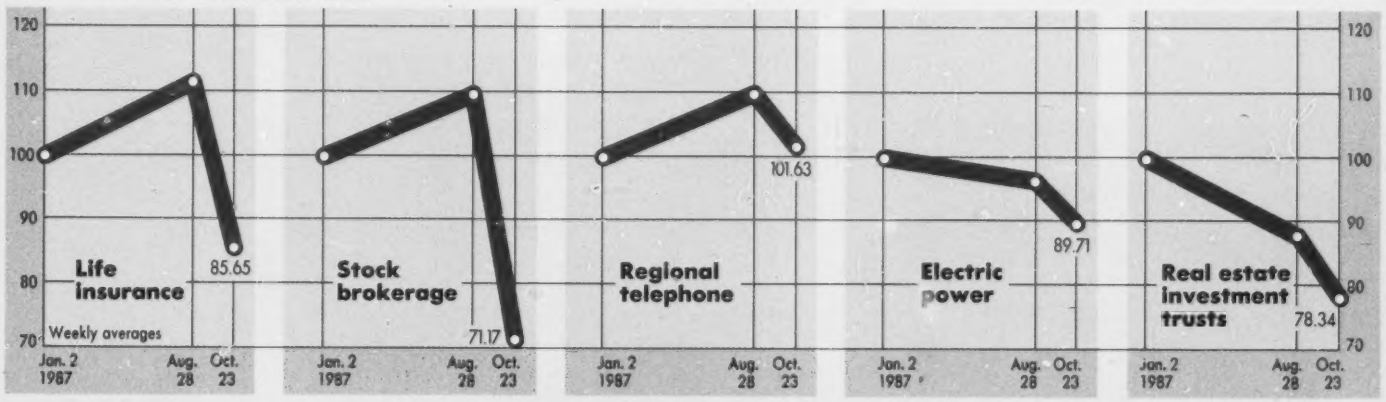
All suffered, but unequally . . .

The top five industry groups, among 91 tracked by Standard & Poor's, led the bull market this year. The crash left the highfliers better off than the five worst laggards were at market's peak in late August. Brokerage firms and life insurers felt the hardest blows.

The Best Performers



The Worst Performers



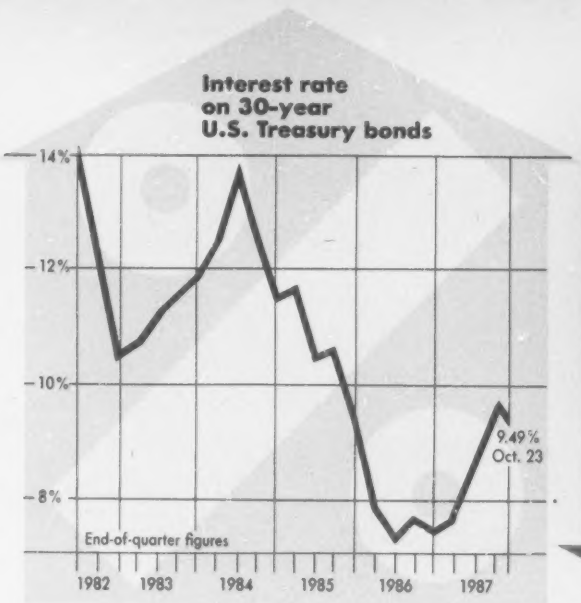
. . . while many still count blessings

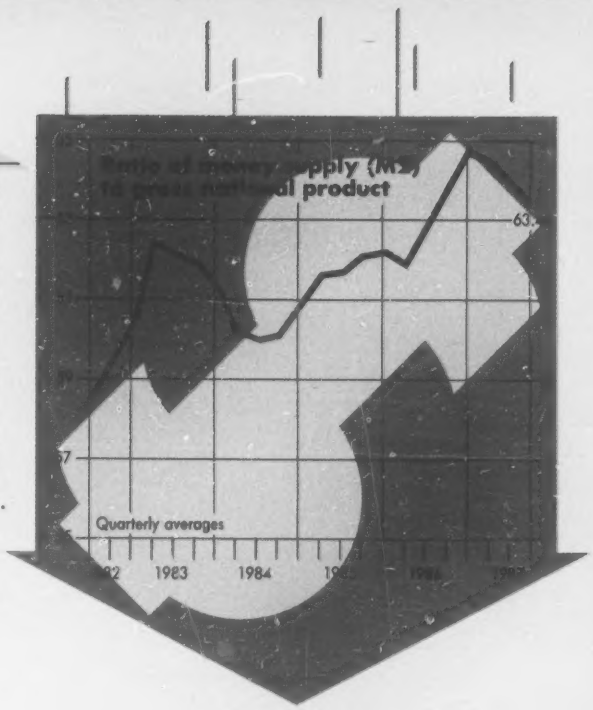
The ten leading performers among the 30 Dow stocks during the bull market's ascent all lost ground in the crash. But these blue chips remain well ahead of five years ago.

	The Bull Market Rise			The Crash . . .		and After the Crash		
	Share price Aug. 12, 1982	Share price Aug. 25, 1987	Percent change	Share price Oct. 19	Percent change from Aug. 25	Share price Oct. 26	Percent change from Oct. 19	Overall change since Aug. 12, 1982
Woolworth	$8.44	$56.50	+569%	$36.25	−36%	$32.25	−11%	+282%
Merck	$32.375	$207.875	+542%	$160.00	−23%	$155.00	−3%	+379%
Westinghouse	$13.125	$72.50	+452%	$40.25	−44%	$43.25	+7%	+230%
Philip Morris	$22.94	$119.875	+423%	$88.125	−26%	$85.00	−4%	+271%
Boeing	$11.67	$53.125	+355%	$38.50	−28%	$37.125	−4%	+218%
Coca-Cola	$11.58	$52.125	+350%	$30.50	−41%	$36.25	+19%	+213%
McDonald's	$13.58	$60.125	+343%	$36.375	−40%	$41.00	+13%	+202%
American Express	$8.94	$38.875	+335%	$22.50	−41%	$22.00	−2%	+146%
Du Pont	$30.50	$128.375	+321%	$80.50	−37%	$81.25	+1%	+166%
General Electric	$15.75	$65.625	+317%	$41.875	−36%	$42.625	+2%	+171%

Economic indicators flashed a warning . . .

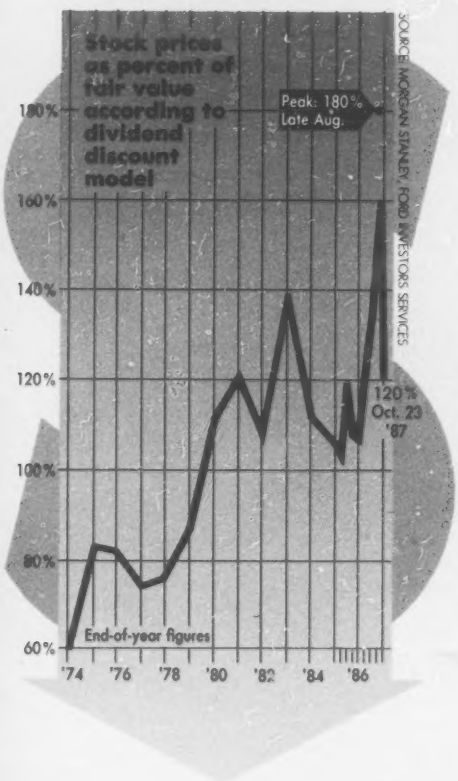
Interest rates (near right) fell until this year, nurturing the market, but then ominously turned up. Liquidity (far right), which also tends to lift stocks, rose until the Federal Reserve slowed money growth. Liquidity is the ratio of the money supply to GNP.

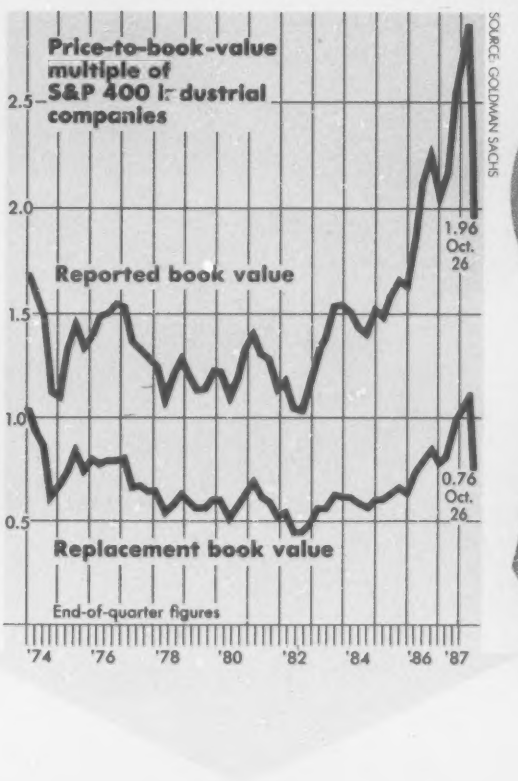


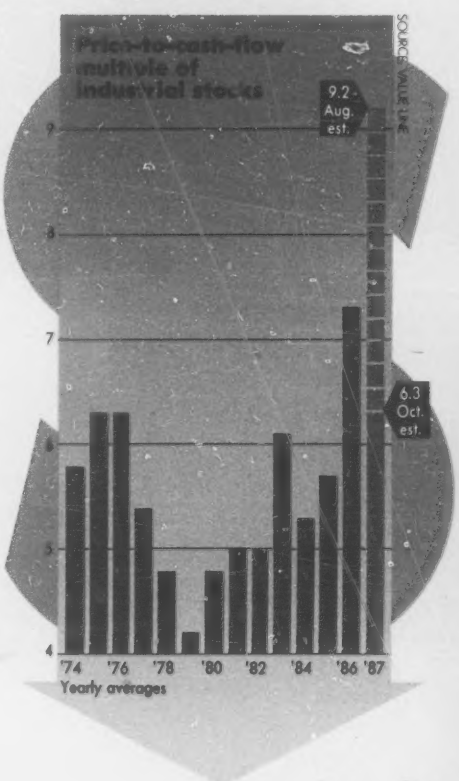


. . . and values look better now

At recent peaks, stock prices were stratospheric when measured by traditional Wall Street altimeters of value. Now prices, though far from cheap, are out of the sky. The dividend discount model compares the expected returns on stocks with those on bonds. F







THE STOCK MARKET

WHAT HAPPENED AND WHAT'S NEXT

Wall Street faces tougher times making money and doing deals. And it has to worry about regulators who may want to fix too much.

■ *by Alex Taylor III*

FINANCIAL PANIC. Just weeks ago the phrase was a history book curiosity that seemingly had no meaning in the modern age. No more. Stock markets around the world have just gone through a classic panic, unique in its high-tech mechanics and the magnitude of the price collapse but no different in substance or dynamics from those of 1929 and 1907.

What set it off? Pundits, politicians, and professional investors cite an array of causes. The failure of Congress and the Administration to deal adequately with the federal budget deficit. The stubbornly high U.S. trade deficit. Deepening crisis in the Middle East. Treasury Secretary James Baker's threat to force the dollar down sharply against the German mark. The pernicious influence of so-called program traders on Wall Street. Proposed tax legislation that could bring corporate takeovers, and even friendly acquisitions, to a dead halt. Tight monetary policy that left the markets starved for liquidity and helped push interest rates on government bonds above 10%.

Many of those surely affected the market. But the world will never *really* know why panic suddenly ruled, why the Dow Jones industrial average dropped 508 points on October 19 and not a week earlier or a month later. The most we can know is that stock prices had reached awesome heights, that many investors had been worrying for months that a drop was coming, and that suddenly a multitude tried to get out at once. As Warren Buffett, one of those most bloodied in the crash, observes: "When the tulip boom broke in 1636, did people in the Netherlands say they shouldn't have changed the discount rate?"

Even without the why, investors and policymakers have much to learn from what happened in the panic of 1987 and how it played out. Some lessons are startlingly different from the early impressions in the days immediately following the carnage. Overall, the securities industry served its customers well. But some parts of the market system failed utterly.

The industry—and the rules it operates under—are bound to change dramatically because of those failures, and in ways that will affect virtually everyone who uses the market. Understanding what really happened is essential to making sure the changes are the right ones. What the industry needs now is a fresh infusion of capital backing up market makers on the exchanges. It does not need sweeping new regulations or supervision.

The collapse really began on Wednesday, October 14, when the

REPORTER ASSOCIATES *Christopher Knowlton and Sarah Smith*

MICHAEL L. ABRAMSON—MAGNUM FOR TIME

Portrait of global panic: Frenzied futures selling in Chicago . . .

BEN MARTIN—TIME

caused computers to crash at the Pacific Stock Exchange in Los Angeles.

Dow tumbled 95 points. The release of disappointing trade statistics for August apparently spooked many investors that day. Rising interest rates also dragged stocks down by luring pension fund money out of the market. As money manager Jeremy Grantham of Boston's Grantham Mayo Van Otterloo said, "After the greatest bull market in history, U.S. Treasury bonds yielding 10% are as close as you can get to a free lunch." More pressure was coming via an esoteric trading strategy known as portfolio insurance. In the days that followed, portfolio insurance and "program trading"—the most common form of which is arbitrage between stocks and futures contracts on stock indexes—became the designated villains of the game.

FEEDING THE FEARS

PORTFOLIO INSURANCE is a technique by which institutional investors, mostly pension funds, try to limit losses on their stock portfolios during down markets. The concept behind it is straightforward: As the stocks in a portfolio decline, the manager sells some and invests the proceeds in something safe such as Treasury bills. The further stocks drop, the more the manager sells, until he has shifted all his assets to T-bills.

But selling lots of stock—and then buying back when prices rise, the second part of the strategy—is costly and cumbersome. So the money management firms that provide portfolio insurance accomplish the same goal by using futures contracts on stock market indexes to hedge the portfolios. Devised just five years ago, stock index futures represent contracts to buy—or sell—a basket of stocks such as the Standard & Poor's 500 index at a specified time in the future. The contracts ultimately are settled in cash, not in the stocks themselves, according to how much the index rises or falls before the expiration date.

As stock prices decline, the insurance providers sell index futures short. If stocks go still lower, the price of the futures contract will also decline, and the pension fund will have a profit on its short position that offsets some of the loss on the stocks it owns. The more stocks fall, the more contracts the insurance providers sell.

The value of assets protected by portfolio insurance has risen explosively over the past two years, from about $15 billion to perhaps $60 billion. But that represents only about 6% of the money pension funds have invested in stocks (and 2% of the total value of stock outstanding before the crash). The insurance programs are run by a handful of money managers, including Wells Fargo, Bankers Trust, Morgan Guaranty, and Leland O'Brien Rubinstein, the Los Angeles firm that invented the technique.

In the tumbling market of October 14, portfolio insurers sold more and more futures contracts short. The steady selling of index futures probably helped drag stock prices lower, triggering still more selling of futures by insurers. Many critics of portfolio insurance say this chain of events was artificially contributing to the price decline. In fact, that is like blaming a murder on the weapon. It was the pension funds' decision to lock in their gains from the bull market as soon as prices started to slide that actually created the pressure. Once that decision was made, they likely would have had the same influence on the market whether they sold futures contracts or protected themselves the old-fashioned

FRANK FOURNIER—CONTACT

Wall Street: Watch and worry

NORIOKI HAMAMOTO—STERN

PETER CHARLESWORTH—JB PICTURES

Tokyo teemed with sellers but hardly any buyers . . .

while battered traders actually closed the Hong Kong market.

Parisian faces were different but emotions identical. The market meltdown threatens the Chirac government's privatization plans.

way, selling the underlying stocks.

Risk arbitragers—the guys who load up on takeover stocks, hoping to make a killing—also played a role. Fear of tax proposals in Washington apparently persuaded some of them to pull out of the market. The Democrats on the House Ways and Means Committee had just approved a plan to eliminate almost all interest deductions for debt used in acquisitions. The stocks of takeover targets, including Dayton Hudson and Newmont Mining, tumbled even more than the Dow on Friday, October 16. And did the Dow tumble. The average dropped more than 100 points for the first time, on record volume of 338 million shares. For the week, the Dow was down 235 points, or 9.5%, the worst performance in nearly 50 years.

Many Wall Streeters saw disaster ahead. After the close on Friday, Peter DaPuzzo, the head of over-the-counter trading at Shearson Lehman Brothers, assembled his 60 traders, opened bottles of champagne, and told them to prepare for big trouble on Monday. Trading would likely be frantic and Shearson could take large losses by continuing to make a market in the 2,500 mostly small-company OTC stocks it trades. Market makers have to stand ready to buy when others are unwilling. Shearson had spent years, and lots of money, building its reputation in the OTC market. "Now," said DaPuzzo, "I want to make sure we keep our reputation going." But even DaPuzzo had no idea of what was ahead.

DON'T BLAME FOREIGNERS

THE TSUNAMI started in Tokyo when that market opened at 7 P.M. Sunday New York time, and grew as it rolled around the world through Hong Kong, Frankfurt, Paris, and London on its way to New York. Every foreign market was selling through the floor, making it absolutely certain, even before the opening bell, that Wall Street was about to get creamed. As the world economy has become increasingly interdependent, far-flung stock markets have come to move much more in tandem. Says William A. Schreyer, chairman of Merrill Lynch: "I never thought I'd get up and turn on the TV to see what Tokyo was doing. Now I do."

Panic was palpable by the time Monday's opening bell sounded on the New York Stock Exchange floor. More than 600 million shares changed hands that day as the Dow collapsed by 22.6%. Pension funds furiously sold stock. Individuals raced to cash in before their bull-market gains evaporated. So many sold mutual fund shares that Fidelity Investments, one of the largest fund managers, had to extend the time it took to pay customers from one day to seven, tapping bank credit lines to meet redemptions.

Takeover artists and leveraged buyout firms, which had given the market much upward propulsion, swiftly backed away from pending deals that made no sense in a crash. Carl Icahn, who had announced final terms of his bid to take TWA private on Friday,

canceled the offer on Tuesday. Herbert and Robert Haft decided that they wouldn't pursue Dayton Hudson after all. Samuel Heyman, chairman of GAF, postponed his plan to take that company private. Risk arbitragers took their worst drubbing ever as the deals collapsed around them and they sold out at distress prices. Michael L. Goldstein, a security industry analyst at Sanford C. Bernstein, estimates that the risk arbitrage departments at Goldman Sachs, First Boston, Bear Stearns, Morgan Stanley, and Salomon Brothers, which had a combined inventory of about $1.5 billion of stock, lost at least $200 million. Others estimate the losses as high as $500 million.

ONE GROUP that apparently did *not* sell in force was foreign investors. Over the preceding 18 months, they had assumed a major role in sustaining the great bull market. In 1986, net foreign purchases of U.S. equities more than tripled from the prior peak to $18.6 billion. During the first six months of 1987, foreign buyers were even more ebullient, adding $18.4 billion to their U.S. stock portfolios. The psychological lift this buying brought far exceeded its pure dollar clout. Says Laszlo Birinyi, head market analyst with Salomon Brothers: "For time zone reasons, foreign investors tend to be most active in the first half hour of trading. They've been setting the tone for the market."

Many market analysts had worried that the foreigners could set a very different tone if they suddenly decided to dump U.S. stocks in favor of other assets. Foreign stock purchases did soften in August, when U.S. share prices peaked. But they did not lead the stampede. Says David Resler, chief economist at Nomura Securities in New York: "There has not been a flood of sell orders from Japan. This was a domestic U.S. selloff." Hector Sants, New York–based first vice president of Switzerland's UBS Securities, describes foreign investors as frozen "like rabbits caught in the headlights." By the time they got their bearings, most concluded it was too late to sell.

Equity-minded foreigners could find little refuge in their own markets, as the tsunami continued around the globe. Hardest hit initially were Singapore and Australia, whose markets fell roughly 30% in a week. Britain, Europe's biggest market, paid the price for leadership and fell 22%, the worst showing in Europe. The day after Black Monday the highflying Tokyo stock market suffered its steepest one-day drop in more than 30 years, but it ended the week down a relatively modest 12%. Not so lucky were investors in Hong Kong. That market shut down for four days. The day it reopened, prices dropped 33%. Closing in the face of trouble virtually guaranteed that the Hong Kong exchange will now be eclipsed by its rival, Singapore.

Perhaps the most frightening aspect of the panic was that it could have caused a total breakdown of the U.S. stock market. The most encouraging, plainly, is that the market did not fail, and that the NYSE traded an astounding 600 million shares on such a wild and treacherous day. The torrent of sell orders overwhelmed the specialists on the floor of the New York Stock Exchange. Specialists make sure that buyers and sellers come together in an "orderly" fashion. Unlike the OTC market makers, the specialists have monopolies. Each stock is handled by just one specialist firm, which gets a fee for every share it trades. In return for their monopolies, specialists are supposed to stand ready to sell from, or buy for, their own inventory when orders are out of balance. The NYSE specialists had lost millions fulfilling that role the prior week, buying stock from an excess of sellers and watching the shares decline in value.

NOTHING ORDERLY happened on Black Monday. The specialists who handle the biggest blue-chip stocks met with sell orders they could not begin to absorb. The specialists had little choice but to lower their bids as fast as the exchange's rules would permit.

They also had to buy enormous quantities of shares themselves. By the end of the day, the NYSE specialists were holding $1.5 billion of stocks, ten times the norm. Even so, many critics said that the specialists exacerbated the market rout by buying too few shares. Says the chief financial officer of a FORTUNE 500 company: "When the sell orders poured in, our specialist ran into a cave."

Some specialists undoubtedly shirked responsibility. But as a group they stood straight enough to facilitate more trading volume in a single day than took place on the NYSE in all of 1950. And, after the prior week's hit, the 52 specialist firms absorbed one-day losses of around $1 billion, roughly a third of their capital. The damage was so bad that the next morning the specialists were quietly advised that they could, when absolutely necessary, bend the rules that normally govern their trading. The message, in effect, was "Do what you have to do to stay solvent."

The Crash's Biggest Losers

LOSER	COMPANY	LOSS in millions
Sam Walton family	Wal-Mart Stores	$1,751.9
Leslie Wexner	Limited	$1,451.1
David Packard	Hewlett-Packard	$875.5
Donald Fisher family	Gap	$756.5
Ted Arison	Carnival Cruise Lines	$718.2
Edgar & Charles Bronfman	Seagram	$703.2
Rupert Murdoch	News Corp.	$617.6
Ewing Kauffman	Marion Laboratories	$484.7
August Busch Jr. family	Anheuser-Busch	$471.7
William Hewlett	Hewlett-Packard	$449.8
Milton Petrie	Petrie Stores	$422.1
Joan Kroc	McDonald's	$358.3
Warren Buffett	Berkshire Hathaway	$346.7
John Dorrance Jr.	Campbell Soup	$269.0
William Gates III	Microsoft	$254.6

Proprietors who hold on to their company stock were hard hit in the market slide. Retailers took big losses.

The NYSE specialists shined in comparison with their counterparts in the OTC market, the broker-dealers who make markets in unlisted stocks. That plainly was a losing proposition during the panic; market makers could be sure that the whole world was waiting to dump stock into their laps. So many opted out of the action.

As a result, volume in the OTC market did not increase nearly as much as it did on the NYSE, and prices jumped even more wildly from trade to trade. Brokers and institutional investors have complained that market makers

simply were not making markets in most stocks.

Two notable exceptions among the OTC market makers were Merrill Lynch and DaPuzzo's crew at Shearson, both of which got high marks up and down Wall Street for continuing to buy stocks. But preserving Shearson's reputation was costly. DaPuzzo says the firm's OTC operation lost as much in three days as it had made in the prior six months, and its inventory of stocks, normally about $100 million, leaped to $250 million.

ALEX QUESADA—WOODFIN CAMP

New York Stock Exchange Chairman John Phelan criticizes the trading techniques originated by the men on the facing page.

Legions of individual investors had problems getting phones answered as well. Brokerage offices were so busy that some callers never got through, and others finally delivered their orders in person. Even when they got orders to their brokers, investors couldn't be certain when they would be executed or at what price. A New York broker says he could not fill customers' orders on Black Monday because the two computer operators who relay them to the NYSE trading floor could not handle the incredible volume. Buy and sell orders piled up into a tall stack beside the operators, and once there could not be changed.

The market debacle had few heroes, but one turned out to be the Federal Reserve. Before the market opened on the morning after, Fed Chairman Alan Greenspan lessened the anxiety with a one-sentence statement that the central bank would provide all necessary liquidity. Then the Fed came through as promised, and with impressive finesse.

THE CALL THAT MOVES MONEY

AT 11:30 TUESDAY morning, the head federal funds trader at a major New York commercial bank, one of 40 "primary dealers" in government securities, got a call on his direct line from the Federal Reserve Bank of New York. He listened for a second. Then he covered the mouthpiece with his hand and shouted "Two-day system" as loud as he could.

Those words of money-market jargon spoke volumes for the 250 traders within earshot on the floor around him. "System" signaled that the Federal Reserve System wanted to buy Treasury securities for its own account, injecting new money into the market. This is the Fed's most immediate tool for controlling the money supply. "Two-day" meant that the purchases would be under agreements to sell the securities back to the owners two days later, which is what the Fed does when it wants to temporarily boost liquidity.

No less significant was the timing of the call. The Fed normally buys or sells at 11:40 each morning; traders call it "Fed time." Ten minutes early means something special is afoot, most likely that the Fed wants to buy more securities than normal and needs more time to process the bids that flow in from the primary dealers.

New York Fed officials bought every day that week and into the next, sometimes calling the primary dealers as early as 10 A.M. Their actions helped push both short- and long-term interest rates down about a percentage point in just two days. Yet the initial purchases were not unusually large. Says Donald J. Fine, chief market analyst at Chase Manhattan: "They are doing things they would do anyway, but they're doing them earlier in the day and visibly." The Fed was telegraphing its punches so no one had any doubts about the policy.

By contrast, Fed officials in Washington were nearly invisible during the week of the crash, but they were busy nonetheless. Among other things, they got on the phones and asked big banks to continue lending to ailing Wall Street firms.

If the Fed wore the white hat through the crisis, the black was pinned to the heads of the portfolio insurance crowd trading on the Chicago Mercantile Exchange. By most accounts, their actions created much of the fear that gripped investors and pushed stock prices down further than they otherwise would have gone. Early Monday, insurers and speculators sold so many futures contracts that the futures dropped 15% below the S&P index. Ordinarily, a discrepancy of just 0.5% would kick off enough futures buying to push the futures price back up into line with the index.

This buying would normally be done by program traders—lightning-quick arbitragers who rely on computers to monitor the relationship between the stock indexes and prices of index futures. When the spread between the two gets to 0.5% or more, as in the days before the crash, these arbitragers have an opportunity to lock in a guaranteed profit by buying huge quantities of the lesser-priced one and selling corresponding amounts of the higher-priced. This is the classic "riskless" variety of arbitrage, not to be confused with merger-related risk arbitrage.

The program traders are brokerage firms, pension fund managers, and other large financial institutions. They can profitably exploit slight price discrepancies because of the speed with which they trade. Their computers first tell them how many shares of which companies in the S&P index to buy or sell, and their brokers electronically transmit the orders through the NYSE's automatic order entry system (known as the DOT system, for designated order turnaround) to the specialists on the floor. The DOT system enables program traders to execute trades of hundreds of different stocks almost instantly. Simultaneously, program traders lock in their profits by placing an

offsetting order for futures contracts at exchanges like the Chicago Merc.

By the close of trading on October 19, John Phelan, chairman of the NYSE, was worrying that program trading and portfolio insurance—and the stock-index futures they rely on—could have been a prime cause of the debacle. The next day he "asked"—it was tantamount to a command—NYSE members to stop using DOT for program trading arbitrage. Ever since, regulators and Congressmen have been saying that strict new controls are probably needed on index futures, and program trading has taken on the aura of the manipulative stock pools of the Twenties.

The wild drop in the S&P index futures contract almost certainly did feed investors' fears and cause more of them to sell. But the indictment of program trading and portfolio insurance seems off base—though it does conveniently strike at the Merc, a gnawing competitor of Phelan's NYSE. In fact, the problem may have been too little program trading, not too much.

NEEDED: MORE INSURANCE

UNLIKE SPECULATORS and investors, who move markets by buying or selling, program traders have a neutral effect on prices. For example, at the same time they are selling stocks on the NYSE, they are buying index futures on the Merc. That 15% spread between the S&P and the futures contract on Monday represented an unprecedented profit opportunity. Ordinarily they would have bought index futures and sold stocks until they had driven the futures up to the level of the S&P, and eliminated that scary specter in Chicago.

But the specter just kept sitting there because program traders *weren't* trading that day. They apparently were heavy sellers early in the session of the largest stocks that make up the S&P, adding to the pile of orders that swamped the specialists. But it proved impossible for them to get a clear fix on where stocks were trading at any moment. IBM, Exxon, Digital Equipment, and many other stocks that make up a significant portion of the S&P 500's value opened late. Throughout the session, frequent order imbalances brought further delays. At times, price information on the tape ran nearly two hours behind.

Since they could not be sure at what price they would end up selling stocks or buying futures, the program traders could not trade. Bruce Collins, head of equity arbitrage research at Shearson, says that to do so "would have been speculation, not arbitrage." Phelan has said that arbitrage program trading accounted for 15% of the Monday volume on the NYSE. Leo Melamed, chairman of the executive committee of the Merc, says the true figure was under 10%—less than normal.

Meanwhile, the gaping spread between futures contracts and the S&P index rendered portfolio insurance strategies unworkable. Most portfolio-insurance computer models indicated that the portfolios should have been almost completely hedged—that is, that the pension-fund clients should have been short index futures equal to nearly the total value of their stock portfolios. But the price gap, along with the difficulty of finding buyers for large futures positions at any price, rendered it impossible to hedge.

Most portfolio insurers told clients that they should forget about trying to hedge at least until the spread narrowed. Some pension-fund clients took that advice and stood pat. But others, fearful that further stock price declines would leave them with intolerable losses, opted simply to sell stocks outright. Says a portfolio insurance strategist with a West Coast firm: "One client who was concerned that the portfolio insurance wasn't working called us and said, 'If you can't cover us with futures, then get us out of the stock. We're not worried about details like execution costs. Just get us out.'"

Hayne Leland, who with partner Mark Rubinstein devised the first portfolio insurance strategies, says the NYSE acted "purposefully" to break the ability of program traders to perform their service. Another portfolio

ED KASH

Hayne Leland devised portfolio insurance . . .

RUSSELL MONK

. . . by using an equation created by Fischer Black.

STEVEN BRIGHTER—TELEPHOTO

ANDY FRIEDBERG

Dealmakers Henry Kravis (top) and Theodore Forstmann: refiguring the odds after the crash

insurer calls the controversy over program trading "a head-on collision between two highly efficient auction markets, the NYSE and the Merc"—a war over which will be the dominant market. Phelan says he took his action without regard to the Merc.

Though the breakdown of insurance cost pension funds money, they still have fared better than most stock market investors. One portfolio insurer says customers lost only a few percentage points more than the 5% to 10% that was supposed to be their maximum exposure.

The calls for government action in the aftermath of last week's crash have already reached peak volume. Every regulatory body having anything to do with the securities business is conducting an investigation. They include the NYSE itself, the Securities and Exchange Commission, the Commodity Futures Trading Commission, the House Energy and Commerce Committee, the House Banking Committee, the Senate Banking Committee, and a special panel appointed by President Reagan and headed by Nicholas Brady, chairman of the Dillon Read investment banking firm.

Though much remains to be understood, it seems unreasonable to talk about severely restricting the futures markets until it is clear that they really do cause trouble. Critics of index futures argue that they lead to more volatility in stock prices, but the case remains to be proved. The SEC has already made a special study of futures action during a nasty two-day drop in the Dow in September 1986. "What we found," says Commissioner Joseph A. Grundfest, "was that program trading and portfolio insurance had very little effect. I'm not saying that's what we'll find this time. The truth is what the facts say it is."

In the final analysis, portfolio insurance is nothing more than a dressed-up version of a stop-loss order—a standing order to sell a stock if it drops to a specified price—that has been around for decades. The futures trading used in portfolio insurance does indeed speed up trading. But so do the concentration of capital in the hands of institutional investors and computer networks that give traders access to newsworthy information the moment it becomes available.

Defenders of index futures argue that they play an important role in making markets more efficient by enabling pension funds and other investors to transfer some of the risk in stocks to speculators and others more willing to live with it. Says Fischer Black of Goldman Sachs, a creator of the options pricing model that Leland and Rubinstein used to develop portfolio insurance: "If you limit portfolio insurance, you will simply hurt investors—it hurts people to limit them to one market or the other."

THE CASE FOR REFORM

YET EVEN BLACK acknowledges that some reforms probably are needed at the Merc: "The way to solve the problems we're getting into mainly involves tighter margin requirements." Currently, only $20,000 in margin money has to be put up to control a contract worth more than $115,000. Black says the rule should be in line with the 50% margin requirements on stock purchases.

Congress and the regulators should not limit their inquiries to the futures exchanges. A second day like October 19 probably would have wiped out most specialists on the NYSE and brought the entire market tumbling down. It seems sensible to beef up their capital requirements, and it may also be time to break the monopolies and allow competition among many specialists in a single stock. But a whole new skein of regulation, always a danger with so many investigations under way, seems ill-advised.

Whatever happens in Washington, Wall Street has entered an era of profound change. In some ways, the new market looks dandy for dealmakers. Mark Solow, head of acquisition lending at Manufacturers Hanover, talks about "the tremendous opportunities" that will exist "once the stock market stabilizes." One buyer who hasn't been waiting for that is Michael Dingman, head of the Henley Group, who took advantage of tumbling prices by acquiring Santa Fe Southern Pacific stock in the market, adding to a block he accumulated earlier. And Sam Heyman, having scuttled the GAF deal, has been buying GAF stock in the market at about 60% of the price he would have paid in his going-private plan.

Another factor encouraging deals is the amount of money in the hands of some dealmakers. Theodore Forstmann, head of the big leveraged buyout firm Forstmann Little, is sitting with $500 million in equity capital and $2.5 billion in subordinated debt capital, and he can leverage these amounts to a total of at least $7 billion. Morgan Stanley recently raised $500 million for LBOs. The Blackstone Group has $600 million. Jerome Kohlberg, who left Kohlberg Kravis Roberts in June and from all appearances did it in dissatisfaction at the kind of deals the firm was backing, is raising $500 million. Carl Icahn has money: over $800 million lodged in the treasury of TWA.

Yet there are reasons to believe that takeovers and LBOs are on the wane. The biggest is the recent problems in the junk bond market—or the "wampum" market, as Ted Forstmann, no admirer, calls it. Some 30% or more of the typical LBO is financed with high-interest junk bonds, and in the panic the junk-bond market got powerfully difficult. At times there was nearly zero liquidity in the junk market. As a result, many junk bond investors weren't even trying to sell, since they would have had to unload at unacceptable prices.

Not surprisingly, the upheaval in the market has chilled new issues of junk. The only major deal done in the week of Black Monday was a $400-million issue by SCI Television, an offspring of Storer Communications. To make this deal fly, its sponsor, Kohlberg Kravis Roberts, had to offer interest rates that ranged up to 17.5%, 8.5 percentage points above prime. Even then, Drexel Burnham couldn't sell the whole deal and had to inventory some of the bonds itself.

The securities industry was having a bad year even before the crash. One reason was the bond market slump in April, which produced more than half a billion in trading losses. More fundamental, the industry's costs have been

growing much faster than revenues, and the need for retrenchment was already obvious. With Black Monday came new losses of $1 billion, including the hit to risk arbitrage departments. Those losses were only partly cushioned by extra commissions on the huge trading volume, which Michael Goldstein of Sanford Bernstein estimates at $35 million a day through late October.

ANDY FREEBERG

Dillon Read's Nicholas Brady leads the investigation into the roots of the debacle.

The restructuring that began at some investment banks late last year could become much more draconian now. Windel B. Priem, head of the financial services division at the executive recruiting firm of Korn/Ferry International, says many firms will aim to cut expenses by 20% this year. Priem thinks the axes will fall hardest on Wall Street's yuppies—"the guy who is five years out of business school making $500,000, and all he's been doing is carrying someone's briefcase."

Unprofitable businesses will be eliminated altogether, as Salomon Brothers did in early October when it fired 800 employees and abandoned the municipal bond market. Investment banks may leave trading in commercial paper and certificates of deposit largely to commercial banks, which do the job at lower cost. In addition, Goldstein notes that few profitable innovations are coming out of the investment bankers' pipeline to replace the old businesses, adding that he cannot foresee the firms ever returning to their profitability of the early 1980s, when they earned pretax returns on equity of 50%.

Of all securities companies, the mutual fund managers probably survived the crash in the best shape. When investors cashed out of, say, a Fidelity equity fund, most moved their money only as far as the nearest Fidelity money-market fund. Goldstein figures that 75% to 90% of the stock-fund sellers stayed within a family of funds.

Discount brokers, on the other hand, were badly bruised. Among the hard hit was Charles Schwab, which reported it suffered $22 million in losses during the crash. The brokerage couldn't handle the load of trades and telephone calls coming in as the market collapsed. Quips Schreyer of Merrill Lynch, hardly a disinterested observer: "People were running in here last week begging us to charge them 50% higher commissions."

HOW SAFE ARE THE INVESTORS?

BROKERS and customers are likely to squabble about what happened in the crash for months. Trades that were lost (DKs, for don't knows, in the industry's jargon) and questionable trades (QTs) exploded. At Merrill Lynch, DKs and QTs were ten times normal. When two firms disagree about a trade or the computers don't confirm it, the brokers have to go to the floor and resolve the matter in person. The NYSE says QTs on Black Monday totaled 3.4% of the 202,084 transactions. The usual percentage is half that.

Joseph Arsenio II, executive vice president of Birr Wilson Securities in San Francisco, expects there will be thousands of complaints about trades executed at prices other than what customers specified. "It used to be the broker was always wrong and ate the loss," says Arsenio. "But given this disaster, that attitude may turn around. Brokers can claim the crash was an act of God." Some investors who held stock on margin complain that brokers sold them out at a loss without giving them a chance to put up more money. A group of Florida investors has sued Bear Stearns for $100 million, claiming it did just that. Bear Stearns says the suit has no merit.

For all the turmoil, investors apparently need not worry about the safety of their accounts. The Securities Investor Protection Corporation, or SIPC, which insures brokerage accounts up to $500,000, is flush with $390 million, a $500-million credit line, and a statutory right to borrow $1 billion from the Treasury. Only one firm that deals with the public—a small outfit in Grand Rapids, Michigan—has collapsed in the crash.

In Europe the growing trend toward wider share ownership among individual investors probably has suffered a major setback, though just how major will depend on the ultimate extent of the market's slide. Since 1979, Margaret Thatcher's privatization drive has wooed seven million new investors into stocks. Some four million French investors, most first-timers, have snapped up the Chirac government's sales of more than $8 billion of shares in ten state-owned companies over the past year. At a minimum, as David Skinner, chairman of Edinburgh money managers Martin Currie observes, "these individual shareholders are going to be reluctant to spread their wings for some time to come."

Investors are bound to be more reluctant everywhere, and that is potentially the greatest cost of the panic of 1987. Vibrant stock markets perform a vital function in generating capital for investment and innovation. By offering broad opportunities for investors, they entice funds into the market and reduce the cost of capital for corporations. Venture capitalists back entrepreneurs in startup companies largely for the chance of eventually going public and cashing in. That process has brought us Apple Computer, Genentech, Immunex, and many others in recent years. A weakened stock market makes for fewer benefits from the initiative and creativity that are the miracle of a capitalist system. ■

THE FORTUNE 500 CEO POLL

STILL BULLISH AT THE TOP

Though eager for Washington to "do something" about deficits, chief executives continue to expect higher profits and no recession. ■ *by Anthony Ramirez*

Rohr's Todd

Greyhound's Teets

Murphy Oil's Sweeney

JOHN ABBOTT

Hasbro's Hassenfeld

DESPITE the market plunge, chief executives interviewed for the FORTUNE 500 CEO poll, the second in a series, are mostly upbeat. They expect no recession next year, think company profits will exceed this year's, and believe the Dow Jones industrial average will recover some lost ground, though it will not return to the giddy August peak of 2722. They have steady nerves when it comes to the Persian Gulf. Most think the U.S. is showing the right degree of resolve in those roiled waters.

That does not mean the CEOs have no beefs with Washington. "We're heading toward Brokes-ville," growls Harry Todd, chairman of Rohr Industries, an aerospace manufacturer. Like other executives, Todd believes President Reagan and Congress must cut the federal deficit not only to bring order to U.S. fiscal affairs but also to calm world financial markets rattled by Black Monday.

Says John Teets of Greyhound, the bus manufacturer and consumer products company: "We elected these officials to make the tough calls. I make the tough calls in my company. They should make the tough calls in government." Cuts should come even if they fall close to home. "You'd be awfully busy cutting before you ever got out of the farm subsidies and other goodies in the Agriculture Department," says Robert Sweeney, whose Murphy Oil owns 40,000 acres of mostly subsidized cropland.

The poll was conducted Thursday, Friday, and Monday following the October 19 stock crash by Clark Martire & Bartolomeo, opinion researchers in Englewood Cliffs, New Jersey. The 80 respondents were picked from among the FORTUNE Industrial 500 and Service 500.

REPORTER ASSOCIATE *Julianne Slovak*

In the first poll last August, when the stock market was near its dizzying high, top executives were about evenly divided on whether share prices would be up or down a year hence. Now most look for some recovery, but not a return to the stratosphere: 38% expect the Dow to range from 1500 to 2000 one year from now, and a whopping 53% see it at 2000 to 2500. Says Stephen Hassenfeld of Hasbro, the toymaker: "The market will languish for a while, and I think it should, because it was way overpriced."

Market gyrations haven't shaken the CEOs' faith in the economy. Close to the same percentage in October (78%) as in August (84%) say they do not expect two or more consecutive quarters of decline in GNP by the end of 1988. But Peter Buchanan of First Boston, the investment banking firm, speaks even for the optimists when he says, "There's got to be some chance of a recession because of the emotional impact on consumer confidence of what's happened to the markets."

Their bullishness stems in large part from the relatively bright prospects they see for their own companies. Wallace Barnes of the Barnes Group says he doesn't expect a recession because his order book is so fat. His company makes precision parts for the aerospace, appliance, automotive, and agricultural equipment industries, so Barnes regards it as a mirror of the economy. Many CEOs share Barnes's optimism: 53% believe 1988 profits will exceed this year's by more than 10%; 29% expect an increase in the 1% to 10% range.

The CEOs are nearly unanimous in their support of the Reagan Administration's retaliation against Iranian attacks on American-flagged vessels in the Persian Gulf. Fully 91% say U.S. policy is neither too timid nor too aggressive but "about right." Says Finn Caspersen of Beneficial, the financial services company: "To achieve credibility, we have to protect our interests and those of our allies." But, adds Teets of Greyhound, "I don't want to bomb Iran tomorrow because a guy shot a hole in a ship."

WHAT SHOULD the government do to close the budget and trade deficits, stabilize the dollar, and strengthen the securities markets? When asked that open-ended question, nearly all the executives felt that Washington ought to do something. Says Buchanan of First Boston: "Congressional leaders and the President have to sit down and come up with a strong action plan. Crisis usually helps to focus the mind."

Nine out of ten CEOs advocate some combination of spending cuts and tax increases. "Some middle-class entitlements have to be reconsidered," says Caspersen of Beneficial. Hasbro's Hassenfeld says he is a strong supporter of the military but believes the Defense budget could be cut because "it's been going up at such a fast clip." One dissenter is John Bryan, chairman of Sara Lee, the food company: "I don't think the President will or should change his fundamental position on taxes."

Most chief executives believe that the trade deficit also needs strong intervention by the government, though they are pretty vague on prescriptions. Only 13% suggested that the U.S. should force trading partners to open their markets to American goods. Bryan of Sara Lee is in the minority on trade policy too. He says the trade deficit will "correct itself."

Computerized trading and complicated speculative instruments, like index futures, are part of what ails the financial markets, at least according to some CEOs. "If you prune away those speculative devices," says Todd of Rotan, "you begin to get back to a much less volatile market, and the quick-buck Charlies will go back to Las Vegas where they belong."

The tricky ways of playing the market remind Wallace Carroll of 1929, when he was 22 years old. "Margin calls did the job then, program trading will do it now," says Carroll, 80, one of the few CEOs who expect a severe recession or depression. His company, Katy Industries, is a conglomerate that has among its products Jacuzzi spas, a business that would be especially hurt if sybaritic yuppies find their paychecks crimped. Accordingly, Carroll has paid off $54 million in bank loans and delayed capital spending. He plans to keep inventory lean. "I wouldn't be taking all these steps if I hadn't gone through the Great Depression. But once burned, twice shy." Even CEOs who don't expect another depression might do well to follow Carroll's injunction to his staff: "Nag the hell out of your overdue accounts." F

Q RECESSION

Do you expect a recession—that is, two or more consecutive quarters of decline in real GNP—by the end of next year?

A	
Yes	17%
No	78%
Not sure	5%

Q PROFITS

How do you expect your company's 1988 profits to compare with its 1987 profits?

A	
1%-10% higher	29%
More than 10% higher	53%
1%-10% lower	8%
More than 10% lower	1%
No change Not sure	9%

Q THE MARKET

Where do you expect the Dow Jones industrial average to be a year from now?

A	
Below 1500	1%
1500-2000	38%
2000-2500	53%
Above 2500	7%
Not sure	1%

Q FOREIGN POLICY

Is U.S. policy in the Persian Gulf:
A. too aggressive
B. not aggressive enough
C. about right

A	
A	4%
B	5%
C	91%

Q THE DEFICITS

What, if anything, should the government do to close the U.S. budget and trade deficits, stabilize the dollar, and strengthen the securities markets?

A (MOST FREQUENT RESPONSES)

Reduce spending	34%
Reduce spending and raise taxes	34%
Pressure trading partners to open their markets	13%
Regulate or outlaw program trading	13%

First Boston's Buchanan

Beneficial's Caspersen

GWENDOLYN CATES

Sara Lee's Bryan

MICHAEL L. ABRAMSON

Katy's Carroll